Agenda
June 8, 2004, 10:15 a.m. – 4:00 p.m.
Foley & Lardner LLP, 321 N. Clark, Suite 2800, Chicago[†]

I. Procedural Matters

A. Procedure

- Open process / encouragement of free dialog
- Consensus principles – applicability of traditional settlement discussion rule to non-consensus items and "brainstorming" of issues and alternatives
- Anti-trust compliance
- One more status of electronic e-mail list – "Post2006RWG@foley.com"

B. Approval of Reports (separately distributed documents)

- May 21 RWG Meeting
- June 1 RWG Meeting

II. Continued discussion of Hedging Bucket Issues

At our June 1 meeting, the RWG discussed potential consensus items consisting of: (1) general principles that should be applicable to policy decisions concerning hedging and related issues; (2) particular items of possible consensus. These items are reflected in red type below. It was recognized that consensus on these points was not final and that consensus on many financial and rate design issues could not be achieved. The discussion should focus on issues where achievement of consensus is reasonably likely:

- Continued discussion and addition to the principles identified at the last meeting;
- Continued discussion of how the choice of Scenario affects hedging issues; and
- Continued discussion of whether and what bounds that can be established on financial and rate design issue on which complete consensus cannot be achieved.

Please note: Rate Working Group questions 33-36 are focused on rate and rate design issues aspects of hedging. Questions concerning whether and how utilities should hedge, operationally, are addressed by other Working Groups.

A. Should utilities hedge their electricity acquisition costs? To what extent?

34A) To what extent should non-competitive tariffed energy service offerings by utilities be hedged against fuel price/ market price risks?

[†] **NOTE**: A video link will be available at AmerenCIPS offices in Springfield, 607 E. Adams Street, two blocks north of the ICC's Springfield office. Entry is off of Adams Street, a short distance east of 6th Street. My thanks to Jon Carls and Ameren for the space.

The consensus of the RWG is that, in principle, the costs of commodity acquisition, including the costs of associated hedging, should be borne by the customers using commodity services.

The consensus of the RWG is that, in principle, unbundled customers who do not take commodity service from a utility should only be responsible for (a) incremental commodity costs incurred by the utility by reason of such customers' right to exercise an option to return, and/or (b) incremental commodity costs caused by the exercise of their option to return (e.g., a "return fee") if and when such customers elect to do so.

The consensus of the RWG is that, in principle, the degree of hedging appropriately undertaken by utilities, directly or through their commodity acquisition methods, may vary with the nature of the service being provided (*e.g.,* fixed price general service vs. RTP service) and the broad customer group to which it is being provided (*i.e.*, residential, C&I customers to whom the supply of power and energy has not been declared competitive, C&I customers to whom the supply of power and energy has been declared competitive).

1. What portion of load should be hedged?

   34B) Should utilities attempt to hedge for their full expected load serving obligation, or only for a portion?

   FOCUSED QUESTIONS:

   - Is it acceptable for utilities not to hedge against variations in the price of resources required to meet their commodity supply obligation, directly or through their commodity acquisition methods?
   - Is it acceptable for utilities to not hedge against variations in the price of resources required to meet their commodity supply obligation, directly or through their commodity acquisition methods, other than by entering into long-term contracts?
   - As the portion of hedged supply declines for a product (extreme case is RTP), it is appropriate for the rates for that product to reflect increased price variability?
   - Does acceptance of unhedged commodity risk by the utility increase its cost of capital?

2. Over what period(s) of time should costs and prices be hedge?

   34C) For how long should prices be hedged?

   33A) Should rates be reset on a monthly or yearly basis or should rates be fixed for a multi-year period?

   FOCUSED QUESTIONS:

   - What are the minimum and maximum acceptable periods during which non-RTP residential commodity prices will remain fixed?

- What are the minimum and maximum acceptable periods for which non-RTP residential commodity prices will be determined?
- Does achieving stability within these periods require the utility to hedge?

B. Should the extent of hedging vary by customer type or class? If so, how?

33B) Or, should an assortment of these products be made available?

35) Should the type or extent of hedging be different for different classes of customers? For example, is the need for hedging less for customers who have greatest direct access to competitive markets?

Residential customers place a significant value on stable prices (for non-RTP service).

Residential customers should have a relatively stable-priced utility product.

Since residential customers cannot practically manage their own quantity and price risk, those risks can and should be managed upstream by the utility and/or through its acquisition process.

To the extent that utilities offer a stable commodity price to non-residential customers, price and quantity risks arise and should be managed as least in part by the utility and/or through its acquisition process.

FOCUSED QUESTIONS:

- Should utilities have any obligation to hedge for RTP rate customers?
- Under what scenarios can customers be offered an option to "opt out" of hedging against switching risk by agreeing to a longer-term supply arrangement? Is encouraging such arrangements desirable?

C. Stretch issue: Recovery of hedging costs in rates.

36A) How should hedging costs be recovered in utility rates?

Utilities should be able to recover from customers the prudent costs of hedging.

If a plan to control price risk is reviewed in advance and approved by the Commission as prudent, the prudence of the plan should not be re-examined after the fact. However, pre-approval of a plan does not and cannot affect regulatory inquiry into whether the plan is followed.

Depending upon the scenario, hedging costs may be reflected in the cost of the resources procured on the market or may result from actions taken by the utility as portfolio manager.

III. Next steps

A. Future meeting

1. June 15 -- Begin discussion of Cost Recovery Issues
2. June 22-23 -- Joint Working Group Forum

B. Schedule for additional RWG meetings

See List of Scheduled Meetings (separately distributed document)